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## THESIS

### MOROCCO: AN EMERGING MARKET

by

Aanitra Mohammed

June, 1996

Principal Advisor:

Robert Looney

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**MOROCCO:  
AN EMERGING MARKET**

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Submitted in partial fulfillment  
of the requirements for the degree of

**MASTER OF SCIENCE IN INTERNATIONAL RESOURCE PLANNING  
AND MANAGEMENT**

from the

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## **ABSTRACT**

This thesis focuses on the evolution of the Moroccan economy. It also looks at how the implementation of the Structural Adjustment Program delayed decentralization and how its success led to privatization that resulted in improved performance of the economy.

During the first decades after the independence, the Moroccan economy made considerable strides. The intervention of the government was essential and, as a result, the GDP averaged 5.6% in 1968-72 and 7.5% in 1973-77. Investment expanded but savings and exports did not follow the same stream. However, since 1976, financial disequilibrium began to lessen growth and development.

Decentralization was institutionalized to avoid misadministration, inefficiency, and to improve decision making. The purpose was to give more autonomy to the communes and more importance to the local market. However, the crisis emerged in 1981 and Morocco was forced to call IMF and launch the Structural Adjustment Program that lasted ten years.

The success of the SAP resulted in the implementation of privatization. Actually, the performance of the economy is the best indicator that Morocco would play an important role in the region as interface between Europe, Middle East, and Africa. Finally the analysis suggests that there are many reasons to be optimistic over Morocco's economic future and the development of a viable emerging stock market.





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To my wife and children for their love.



## **I. INTRODUCTION**

The purpose of this thesis is to examine the process of economic liberalization in Morocco. In particular, this thesis will focus on the role of the government, the difficulties in decentralization, the development of markets, and the effects of the post-1981 economic crisis. This thesis will also focus on areas key to Morocco's future. Morocco's experience will serve as an ideal case study for other North-African/Middle East countries interested in stimulating their economies through increased efficiency and the development of a dynamic private sector.

After the success of the Structural Adjustment Program (SAP), the government initiated a program of privatization and market deregulation. These moves had a profound effect on the economy as well as the socio-political system. To appreciate their importance we must look at the impact on the economy of the increased openness to the global economy.

While there is every reason to be optimistic over Morocco's economic future, a number of concerns remain. These involve the effect of rapid growth on society, the problems in attracting foreign investment and capital, and the difficulties in developing a competitive and viable emerging stock market.

### **A. BACKGROUND**

Historically, Morocco has been subject to covetousness. As such, every time Morocco showed signs of weaknesses, superpowers come either to support and benefit or to invade the country, exploiting its resources, and/or taking advantage of its position. Thus,

the first half of this century was dramatic since Morocco was subject to manipulation, compromise, and bargaining among countries like Germany, Spain, and France.

Morocco's historical background reflects some aspects that influenced the present and will seemingly affect the future and the liberalization of the economic system. In addition, the second half of the century knew a density in events, their celerity, and their change. Thus, the internal and external impacts were sometimes considerable and obligated the country to reassess its strategy. Morocco's geostrategic position is a source of strength as well as a weaknesses.

However, Morocco has been able to cope with crises and mostly solve them successfully. This is due to the leadership and role played by HM King Hassan II as arbitrator beyond the partisanship and as symbol of the national interest.

Also, the 1970s represent a watershed because that period resulted in an attempt to change the pattern of the relationship between the state and the people and to make the rulers closer to the ruled by proceeding to the decentralization of the public administration and by giving more autonomy to the local authorities. So, the problem of decision making, misadministration, and inefficiency were alleviated by decentralization and gave provinces some autonomy. This decentralization was consolidated by privatizing the publicly owned enterprises and letting the market play its role in the economy. This privatization was a step up in the consolidation of the Moroccan market and the emergence of a new wave of politicians and entrepreneurs who are more pragmatic and determined. In fact, privatization began to have positive consequences on the capital market, the labor market, and in the



restructuring of the economy by attracting international investors, and contributing to the economic growth and social well-being.

As a matter of fact, many key indicators reflect the sustained consolidation of the market and its prominent role in the economy. Certainly the Moroccan market has some strengths and weaknesses; thus the international investors should familiarize themselves with its culture and capacities in order to obtain a high return on their investments. Perhaps Asians and Americans can use Morocco as a platform for the European as well as for the African market. Also, Europeans can consider joint ventures with Moroccan entrepreneurs to achieve lower costs. Morocco would be ideal for investors interested in high profits, cost benefits, and long term returns.

## **B. MOROCCO'S INDEPENDENCE**

First and foremost, it is undeniable that every country has its historical, economic, social, political, and cultural characteristics that give it its internal and/or external dynamics and interaction pattern. It also shapes its position, hierarchy, and alliances within the international system.

Definitely the twentieth century was a milestone for Morocco, especially during the first half. Morocco had to cope with colonization and fight for its independence. Also, the recovery of independence was just the beginning of a new era; and as HM King Mohammed V pointed out "we get out from the smallest jihad (war for independence) to the greatest ones," that is the challenge of economic development and social well-being. In fact, Morocco has experienced some economic and social crisis from which it emerged stronger, gaining strength in order to sharpen its strategy.

A geostrategic analysis places Morocco in the center of USA, Europe, Africa, and the Middle East. This position is so neuralgic that every one wanted to share interest within this country. Historically, the most dialectical aspect is the relationship between Morocco and Spain. In fact, the "relations between the two countries have therefore been intimate, sometimes friendly and sometimes hostile, and throughout history there has hardly ever been a moment at which some piece of territory on one shore has not been in possession of the government ruling on the other...; and today we find Christian Spain in possession of two ports, Ceuta and Mellila, on the Moroccan shore, and of several small islands."<sup>1</sup> Thus, it is this past that kept Morocco from recovering its integrity and so "this created a difficult problem of reunification when Morocco regained independence."<sup>2</sup>

At the end of the nineteenth and the beginning of the twentieth century, European powers clearly showed their antagonistic interest in Morocco to the point that it was subject to bargaining, secret agreement, territorial and geographical trade, and compromising their regional influence. Thus, "Morocco became an arena in which the great powers flexed their muscles and tested their strength. Britain, Germany, Spain, and France each viewed politically isolated but strategically situated Morocco as a threat in the hands of any of the others, as well as an area for profitable economic penetration";<sup>3</sup> actually, it is not surprising that Morocco still has so many reunification problems.

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<sup>1</sup> Nevill Barbour, "Morocco," page 13.

<sup>2</sup> Nevill Barbour, "Morocco," page 174.

<sup>3</sup> Morocco a Country Study, page 39.

The treaty of Fes in 1912 opened the door to the protectorate of Morocco. Although it was relatively short, it had a great impact on Morocco's institutional, economic, social, and cultural components. Nevill Barbour divided the protectorate into four periods:

- 1912-1926, old style of resistance.
- 1926-1934, politically organized resistance.
- 1934-1944, increase of resistance and demand for reforms.
- 1944-1956, restoration of independence.

The French government pushed for a high economic exploitation, especially Morocco's mineral wealth. So, France modernized any sector related with the exploitation of resources, i.e., railroads, infrastructure transportation. In addition, French settlers came to exploit the best and richest agricultural lands. Thus, colonization was an "accident of history" that distorted the socio-cultural aspects of life and introduced a new and modern view. The French impact was so direct, it influenced Morocco's culture.

This period of protectorate was rude, because some felt uprooted and denied of their identity and religious feelings. Thus, the nationalist movements founded their struggle on the belief that they should fight for their salvation and recognition as a people with soul, historical roots, and identity. Also, what differentiates the nationalist movements from movements in other countries, is the important role played by HM King Mohammed V. The French thought that he would follow their way and cooperate. But they were wrong because "the lesson was not on Mohammed V. He was a born diplomat, in whom caution and common sense were linked with a high sense of mission as ruler and as representative of the Alawite dynasty....

A modest exterior concealed a determined will. From now on until the achievement of independence the major initiatives came from him."<sup>4</sup> In fact there was a symbiotic relationship between the King and the nationalist movements, especially after the French attempted to induce the King to sign the Berbere Dahir that would have encouraged the Berbere separatism. They failed because the King represents the national interest which is beyond any tribal or political cleavage.

Colonization provided the opportunity for Morocco to strengthen its relationship between Mohammed V and the people. While he was in Tangier where he was supposed to emphasize the cooperation between Morocco and France, he learned that some Moroccans were fired in the riots of Casablanca. He was so angered, "the sultan called for national reunification and independence in his scheduled address at Tangier, omitting his planned mention of French-Moroccan friendship and the benefits of French rule."<sup>5</sup> Thus, the independence ended up with the triumph of nationalist movements and consolidation of the monarchy, and consequently "Mohammed V's personal popularity was high. He enjoyed the unusual position of being a royal figure who was hero of an independence struggle. Under him, the sultan's dual role as head of state and religious leader was strengthened as it had been for many centuries. The object of popular veneration, he was able to control the balance of power and parcel out responsibility among the country's institutions, factions, and parties."<sup>6</sup>

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<sup>4</sup> Nevill Barbour, "Morocco," page 179.

<sup>5</sup> Morocco, A Country Study, page 58.

<sup>6</sup> "Morocco, A Country Study," page 65.

Actually, this cohesiveness between the throne and the people is one of the cornerstones that gave Morocco this political stability and unity.

### **C. ECONOMIC SYSTEM**

The strategic decision after the independence was the adoption of the liberal system and free market in the economy. The first steps were hard since there were no Moroccan skills and the economy had to be reconstructed on another new basis. Many plans were applied in 1965 - 67, 1968 - 72, 1973 - 77, 1978 - 80, and 1981 - 85. The French remained in place for a while, but they were replaced step-by-step by the Moroccans.

Historically and globally, the economy may be divided into two periods: independence to 1981, and 1981 until the present. The first period was characterized by the Keynesian approach which is based on the intervention of the state in the economy, especially in all the important sectors. The government tried to create employment which in principle should generate potential demand, and consequently an increase in production which contributes to the stimulation of investment and leads to the amelioration of revenues.

The Moroccan economy was always characterized by cautiousness; the government analyzes and takes care of every advance and step ahead. For instance, the phosphate price increased and the revenues began to be invested generally in long-term and capitalistic investment. The assumption was that the rise of prices would continue and many countries did the same prospects. For example, the export passes from \$876.6 million in 1973 to \$1,706.4 million in 1974, but at the same time the current expenditure of government was 5,151 million Dirham (MD) and 8,449 MD in 1974, which demonstrates that they doubled in one year. Nevertheless, the crisis did not really begin to be serious until 1980. The GNP

per capita, which was always increasing, decreased for the first time from \$930 in 1980 to \$880 in 1981. The inflation, which always had been moderate, attained 20% in 1981.

The second phase was a period of rebuilding the economy, restructuring and adjustment. The Moroccan government signed an agreement with the IMF called Structural Adjustment Program (*Programme d'Ajustement Structurel*). In Morocco, this program was based, like anywhere else, with some modification, on the stagnation of salary, real prices, and control of exchange rates. The budget deficit began to be reduced, so that it decreased from 13% to 2% of the GDP.

The austerity and its instruments were subject to political and intellectual controversy. The debate resulted in a compromised IMF plan. The IMF plan was a relative success; there was amelioration of budget deficit, inflation, balance of payment, etc. Also, in further proceeding to liberalizing the economy, the barriers to import became more flexible and the economy was more oriented toward export and competition. Practically, there was amelioration of the economic indicators, but to the detriment of social cost; thus, in 1981 "the subsidies to farmers were maintained while bread and flour prices were allowed to rise by about 60%, causing, in part at least, the riots in Casablanca."<sup>7</sup>

Moreover, the rate of unemployment increased. This problem became of such concern that HM King Hassan II involved himself to combat it, so he created the National Council on Youth and the Future. Its representatives were from different fields like labor, business, students, teachers, and political parties.

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<sup>7</sup> Morocco, A Country Study, page 175.

In addition, many incentives were introduced in order to attract investment, especially insisting on political stability, reforms implementation, decentralization, privatization, and sales of state-owned-companies (about \$2 billion just for 1995). As a result, Morocco began to be recognized "among the world's secure trading nations," and gave the idea of a "status as the next emerging market."<sup>8</sup>

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<sup>8</sup> Meed, "New Look Economy Seeks New Suitors."





## **II. DECENTRALIZATION**

Basically, whatever the organization is (firm, public service, or government, etc.), there is a level at which it becomes inadequate to persist in centralizing the management. In fact, the primary purpose of any organization is growth and sustained development. Thus, the apex (President, CEO, etc.) should know when it becomes necessary to make changes and integrate new variables into his strategy.

For this topic the approach will be based on systemic analysis which embodies the subsystems, subunits, and the dynamics that derive to the success or failure of decentralization. In fact, there is interaction between the political, social, and economic systems. Also, there is mutual impact and influence of theory on reality and vis-versa. Theoretically there is no recipe for universal and accepted process of decentralization, because every organization has its own characteristics and abilities to embark into this change.

Our purpose here is to address the reasons that incite governments to opt for decentralization; particularly, we will focus on the Moroccan case and determine the reasons which led leaders to decentralization and its consequences on the economic and political systems.

### **A. WHY DECENTRALIZATION**

The collapse of the communist system confirmed the assumption that central planning suffers many weaknesses and cannot lead to a sustained development, especially in the communication and information technology age. Thus, management requires another concept

and approach which are decentralization and liberalization of the system. In fact, the primary purpose is the rapid responsiveness and efficiency in which managerial structures should match with the long term vision and strategy.

Actually, no one can avoid the organizational impact, because "the proliferation of complex organizations has made almost every human activity a collective one. We are born, raised, and educated in organizations."<sup>9</sup> Also, the political sphere should be taken into account in order to bring the people closer to their leaders, and let them know what they really have or can do for its citizens. Furthermore, without decentralization the administration will mostly lead to "misadministration," waste of resources, and problems in the public services.

Morocco is not an exception to the rule since the combination of many internal and external factors led it to adopt decentralization as a process to bring "the ruled close to the ruler." Also, decentralization gave another conception to the relationship between government and citizens, because it was an indicator that there was certain trust, and it also reflected that people were politically mature to assume public responsibilities, work for the community, and have the sense of general interest.

### **1. Decentralization and Management**

Governmental management is the dynamics of human resources within organizational structures. Thus, there should be a fit between these two components for the success of any decentralization.

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<sup>9</sup>Lee G. Bolman and Terrence E. Deal, "Reframing Organizations: Artistry, Choice, and Leadership," page 5.

## **2. Structural Frame**

The most determining factor is perhaps the size of any organization. The more complex it is, the more there is a tendency toward decentralization in order to meet the needs of the people and recognize their specific demands. This then, avoids "underground voices" that may lead to protest and consequently to illegitimacy of the elected. Thus, the increase of Moroccan population, the high rate of birth, political consciousness, and social and economic needs were essential factors in institutionalizing decentralization. In fact, it is the corollary of democratic process and responsibility.

The real issues here are to specify the organizational design and see how it grows and changes in order to determine the level of decentralization, the model of interaction among its different components, and the model for an efficient information-flow system.

Practically, on the one hand some cities may include many communes for the efficiency of managing problems; on the other hand, other cities (some cities became wilayates) should be restructured in order to handle most of the issues facing the city. In fact, cities do not have the same configuration nor the same capacities (budgetary, financial, skills, economic, etc.) in order to solve its problems. Thus, the degree of decentralization should take into account all these factors in order to know which is the adequate level of decentralization, autonomy, freedom, and control. In reality, there is a combination of deconcentration and decentralization because there should be coordination control, autonomy and an analysis of the decision making according to the global and national policy.

Basically, the structural configuration in Morocco is defined as follows: the commune which is the basic cell for social and economic activities and the framework for decentralization. This also includes province and prefecture, which are the connection and transition within the central authority. The major element here is that there is always an updated structural design with respect to the demographic, economic, and ethnic variables.

On this order Moroccan government opted for a "gradual decentralization" which depends on the degree of political maturity, collective consciousness, and level of development. So, as mentioned by the actual Minister of the Interior Driss Basri:

*Optant pour une décentralisation évolutive en rapport avec la réalité de la société marocaine, les pouvoirs publics s'interdisent d'emblée de conférer à la commune un rôle de premier plan et ce, pour prévenir tout échec lié à un milieu insuffisamment préparé ou un enthousiasme démesuré.<sup>10</sup>*

This means that Morocco foresaw that the best way was a pragmatic decentralization; that is, the structural design which takes into account the reality of the Moroccan society. The level of decentralization is based on peoples behavior and their collective consciousness; so the more the people are educated and have a sense of community, the more this leads to economic and social role. This can be reflected by the percentage of the vote and the level of education among the candidates in the different elections.

Furthermore, the interaction among the different components of the sub-systems (economic, social, political) varies according to the self-perception of the role of the local

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<sup>10</sup> Driss Basri, "La Décentralisation au Maroc de la Commune à la Région," page 22.

government and how the elected deal with voters belonging to different strata of society. So, the clearer the relationship is, the more decentralization is potentially successful.

Practically, usual activities are done by the local government, but certain activities are subject to the guidance or direct control of the central government. The question here is how these two, sometimes paradoxical, functions would coordinate for an efficient outcome.

Politically, in the past, the competition among political parties resulted in criticizing each other. Also, the relationship between candidates and voters was influenced by manipulation and bargaining. The local government employees were and are still subject to critics because some candidates indicated that the local authorities intervened and used propaganda to help some candidates who are pro-government at the expense of the others. All this shows that the relation between elected, voter, and government seemed to be imbued with bargaining, interest, and reflecting to some extent the degree of consciousness of the voters. In fact, some voters felt they were going to vote anyway and that almost all the candidates were alike. Consequently, the interaction among the different players was not as clear as it should have been. However, now the institutional structures gave a legal basis to the interpretation of decentralization and the consolidation of democracy.

The process of information-flow system should be accurate and well defined to avoid redundancy and increase coordination. This will certainly enhance lateral coordination at each level, and also enforce the vertical coordination among the components. Actually it becomes easier with the use of the information technology system, which contributes to rapid information flow, transparent responsiveness, and an individual economic role. Actually, the

ministry of the interior who is the tutor of the "*collectivités locales*" (local representatives or local authority) uses the information technology in managing the local activities. This helps to attain a lateral and vertical coordination among the different communes and provinces. This coordination permits the ministry to have enough information about the social, economic, and financial problems of every area. Thus, centralization no longer has the same impact since technology reduces the importance of spatial factors and enhances the role of the human resources element.

### **3. Human Resources Frame**

Central government cannot control everything by itself because it does not have the capacities to do it. Also, practically, it is not easy for the government to know the specific needs of each area. That is why decentralization is the means by which to determine what are the real needs necessary to make the people feel they are participating in the decision making. This also gives the elected the opportunity to show their abilities and sense of leadership. Furthermore, it leads to a climate in which people have a strong belief in a national identity, but also a communal identity and psychological contract with the community that incite him to share the same goal, concern, and issues.

Basically, in Morocco, regions have different characteristics and unequal resources, so obviously they have different needs with respect to their ethnic and cultural background, and level of revenue. In fact, a person who is living in a city does not have the same needs and

constraints as a rural one's, a poor and a rich, an intellectual and an illiterate, and so on. A.

Mallow grouped human needs in five categories from the lower to higher needs:<sup>11</sup>

- Psychological needs (such as needs for oxygen, water, food, physical health, and comfort).
- Safety needs (to be safe from danger, attack, threat).
- Belongingness and love needs (needs for positive and loving relationships with other people).
- Needs for esteem ( needs to feel valued and to value oneself).
- Needs for self-actualization(needs to develop to one's fullest, to actualize one's potential).

Thus, if the first and second are what I would call the "natural and primary behavior," the others require, and arise from, the interaction between people. Indeed decentralization contributes to the fulfillment of these needs. This is so, because it makes the people feel considered (democratic process), valued (responsible), and that the government is always looking for a better well-being for the community. As for the elected, decentralization is the way to exercise effective control over the budget, financial resources, and management.

An analysis of the characteristics of the elected over many years shows that now they are younger and more educated. This results in a more efficient view. Also, the local rulers are more responsible and cannot easily be at the mercy of the governmental authorities. In addition, the elected have the intellectual potentialities and opportunities to have an idea

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<sup>11</sup> Lee G. Bolman and Terrence E. Deal, "Reframing Organizations: Artistry, Choice, and Leadership," page 124.

about the global environment in which he is working, nationally and internationally. This, in turn, allows him to understand the strength and constraints of the country.

However, a long time ago, it was the local representative of the central government who used to do everything because the local elected were not able to establish budgetary planning. In fact, most of the elected were old and had traditional concepts of management. Obviously, in Morocco, agriculture has an important role, so the elected have their support among farmers, because the relationship is tighten through many years of good and harsh times. Thus, these elected could solve social and conflict problems that might emerge, but could not go beyond that.

Surprisingly, the new wave of candidates and, especially after the election 1992, reflected the mounting influence of a new generation of elected who changed the traditional pattern. In fact, privatization policy and political willingness to go forward were incentives in the high participation of voters, and desire of the candidates to hold local office. Additionally, we should keep in mind that there was an interesting increase in the budget destined to the communes which made political participation more attractive.

## **B. DECENTRALIZATION AND ECONOMIC STRENGTH**

Decentralization affects the political system and also the economic system. The attractiveness of participating in the process of election and holding office has an impact on the economic interest and development. This is because the candidate is expected to manage the local budget, to make economic decisions, and show the voters his capacity to develop the commune. Thus, reduction of the role of bureaucracy, increasing the role of the market



to attract investors, and cooperation with other communes to increase their ability to make economic progress, are determining factors in development and growth. However, the most important obstacle to the execution of any project is the financial issue that limits the expectation of the elected to office.

### **1. Market Enhancement**

Decentralization leads to liberation of the economic system. The decline of bureaucracy and enhancement of liberal forces result in the mounting of the role of the market as a factor of revenue sharing and basis for growth and economic strategy.

Bureaucracy is a determining factor in the distortion of the natural forces of the market.

When it is limited to control and take corrective action, it is still tolerable and even encouraged in order to reduce the gap between social classes and remedy to the weaknesses of the market. However, when it goes beyond that and seeks bureaucratic interest, it results in goal conflict, problems of decision making, and unclear strategy of development.

Generally, bureaucrats are not accountable; thus, they only try to find a way to persist in their office without respect to the general interest. So they make network alliances with the national elites and the international corporate. This network helps them to apply their own strategy which matches the interest of the network alliances. Consequently, bureaucrats will not be enthusiastic for decentralization, because they give up a great part of their power. That is why the political leaders' full desire to go forward and the local elected hope to be reelected, incite the leaders to contribute to liberalization and market enhancement. Mainly,

decentralization gives more synergy to the people, property freedom, and increase the role of the market in dealing with the local development.

Decentralization lets local governments contribute to the emergence and exploitation of local resources, i.e., human, natural, material, and financial, for the benefit and prosperity of the commune. Thus, an employee who is appointed by the government, may not fit with the needs of the commune and may not be not competent. The local recruitment, to some extent, will seek to use "the merit system and fit with needs" in recruiting the appropriate employee; thus participating in the development of the labor market. However, even at this level we cannot deny the fact that interest and network may exist; that is why the participation of the local representatives is a good way to limit this misconduct.

Furthermore, the main natural resources are national ones; however, since these resources are integrated into the local economy and social strategies, a certain part of the revenues should be allocated to the development of the area in order to reduce the backwardness of the area and help other communes. In Morocco, for example, that is what is done in the areas where there is a mine. Obviously, in these types of communes, economic and social life turns around the exploitation of these resources. Thus, if we have in mind that these resources will one day end, the best way is to develop and diversify the economic activities in expectation of change after these resources are depleted. Consequently, a diversified market around the production and services related to these resources is a good solution to avoid the fall of prosperity.

Certainly, the private sector should contribute to the development of the communes, because most of the firms settle only in prosperous regions because of the immediate profit. For example, in Morocco a high percentage of businesses are situated between Settat and Kenitra. However, if they try to seek a long-term return on their investment, they should participate in the emergence of economic activities. In Morocco, for example, a bank (CNCA) which specialized in agricultural loans, really participates in supporting the farmers, especially during the drought when the farmers cannot afford the burdens. Thus, the consolidation of the social and economic structures will certainly benefit the contributor. It is like taking care of a child, the more it grows up the more we know its strength, weaknesses, and can get the maximum in efficiency and outcome. In fact, the most important constraints to the development of the communes is the financial support, because banks are reluctant to help and don't want to get into risky investment. However, a survey of the project and its long-term impact should incite them to help and make the project a successful one.

Moreover, effective decentralization leads to the emergence of small and medium businesses because the expectation of growth and financial support are determining factors in an investment. Usually, these projects are inserted in the environmental characteristics of the region. In fact, local contracts contribute to growth and development of these businesses, increase employment, and attract more investment. Decentralization gives the opportunity to local firms by contracting with private and local government. The lack of businesses capable of executing projects will paves the way for national firms that have human, material, and financial means. So in this case, the local business would be obliged to subcontract or have

nothing. Thus, when national enterprises finish their work, they take their profits and resources and go elsewhere contributing neither to employment nor to the development of local economy. This results in the increase of the gap between the regions, so some become richer and others become poorer.

## **2. Decentralization and Financial Issues**

The most important factor in the development of any organization is its financial resources because they are the *sine que non* condition for any economic take off and growth. These resources take three forms: local funds, subvention, and loans. However, management is capital in the development of the commune.

Decentralization was the opportunity for the *collectivités locales* to increase their own financial resources. These local resources come from forest revenues and local taxes. In fact, it was institutionalized that forest revenues should go to the local funds in order to help the rural communes and at the same time to reduce their backwardness. However, revenues are limited because a part is not allocated for the investment and maintenance of these forests.

Also, there are central committees which don't meet frequently to discuss local problems or the local authorities are hurdled by administrative procedures. Furthermore, the problem of coordination between ministries aggravates the situation, especially in rural communes between agriculture and interior ministries. Consequently, the local authority finds himself facing:

- A central committee who is only interested in increasing its revenues at the expense of abusive use of forests.

- The local authorities become frustrated because central service cannot adapt itself with local needs, projects, and characteristics of each area.
- Finally, the people are obliged to find a way to survive, because in order to live in these regions, they should have grass for their livestock spaces, for agriculture, and wood for their own use.

However, in periods of drought, these people suffer because they have no way to make money and sometimes they are obliged to head directly to the urban cities to find a job and increase the number of unemployed, which, in turn, impacts on criminality and bad behavior.

In addition to forest revenues, there are local taxes that certainly contribute to the increase of local resources. In 1984 a bill was passed to affect a 30% <sup>12</sup> of the *taxe sur la valeur ajoutée* (TVA), value-added tax which is an indirect tax on consumption, to local funds, and also the sharing of some taxes between government and *collectivités locales*. Furthermore, before the 1989 local fiscal reform, the procedures were complex, collecting taxes was not efficient, and many businesses found ways to escape paying taxes. Thus, this reform, in a sense, increased local budgets and also consolidated the financial autonomy. Also, it became apparent that local authorities have been given the responsibility of managing the budget.

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<sup>12</sup> For all the data refer to Driss Basri, "La Décentralisation au Maroc, De la Région à la Commune."

Thus, taxes became more related to the economic situation, global capacity of the commune and average revenue in the area. Also, the locals had the opportunity to determine the tax range in their localities; however, they can do it up to a maximum level.

All this reflects that the central government does its best to improve the consolidation of decentralization of the *collectivités locales*' autonomy; however, the government is still giving them subventions to fill the budgetary deficit. Annually, the government gives additional resources to the communes, that are subventions for functioning and investment. These additional resources are allocated in order to have a budgetary equilibrium, so they increased from 125 million dirhams in 1976 to 1600 million dirhams in 1991 (\$1= approximately 8.6). This increase was the consequence of staffing the local administration, equipment, and maintenance of the projects realized. Nonetheless, the government cannot meet all the needs of the collectivites locales, that is why there was the creation of the (*Fond D'Equipement Communal*) Communal Equipment Fund. Its role was to give them loans with preferential interest rate to support them to extend and execute their projects. Thus, the loans increased from 90 million dirhams in 1984 to 544 million dirhams in 1988.<sup>13</sup>

### **3. Inter-communal Cooperation**

The central government tries in many ways to consolidate decentralization. Certainly, the center didn't totally give up its intervention, because it still has tutorial and control power. Also, it does it in order to play a more arbitrary and coordination role rather than an

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<sup>13</sup> Royaume du Maroc, IV Colloque National des Collectivités Locales, Juin 1989, "Finances Locales."

authoritative one. Furthermore, it tends to incite the communes to cooperate between themselves and find a common ground of interest to develop their areas. Thus, since 1976, the legislator passed a Dahir (law bill), regarding the organization of the *collectivités locales*, in which the government encouraged the communes to coordinate their efforts and unify their resources and energy to develop common projects.

The legal framework is, to some extent, well elaborated and gives the *collectivités locales* power to realize their planning. Also, the legal texts emphasized the creation of unions (*syndicats de communes*) for the execution of common projects. This liberty to create unions denotes the existence of local democracy that allows them to manage their problems. It also reflects the importance given to mutual help between rich and poor communes and the role of material, equipment, trade, and exchange of information and experience.

Basically, legislation stressed the importance of coordination of their strategies and mobilization of their material and human resources. Obviously, this is not a magic way to solve all problems, but it is the best way to consolidate decentralization. Also, it is a way to change the pattern and conception of the relationship between the center and local authorities, and in which cooperation with authority prevail, the sense of responsibility is increased, the willingness to put away fear and rigidity is increased, and looking for a partner with common interest is realized. Thus, cooperation is the best expression of mutual help, mutual understanding, and desire to give birth to common projects.

However, there is a difference between what legislation makes provisions for and what it practices. So, practice suffers many weaknesses which are deepened by unions concept that

has rough connotations reflected through historical facts. Also, the local elected officials are inhibited by the consequence of cooperation, because some of them see it as a kind of interference in their authority and thus limiting their mind oneness. Moreover, the psychological factors undermine their willingness of cooperation related with fear to lose their functional attributions. In addition, the imprecision in the determination of constitution and dissolution restricts the ability of local authorities.

Lately, nonetheless, there has been improvement in the concept of cooperation. Thus, the local authorities began establishing enterprises that include the participation of the local public and private sectors. Furthermore, there was the increase of international twinning which reflects the expectation to be internationally oriented and benefit from the international market and experience. Also, this was strengthened by the fact that, especially since the 1992 elections, most of the local elected are young and determined to go forward in consolidating liberalization and decentralization. Furthermore, the determination to go beyond the political system and its integration within the economic system led to the conception of the economic regions that will coordinate communes, provinces and prefectures to attain a high level of efficiency and compensate the weaknesses of the collectivized locales as units of decentralization.

#### **4. Economic Regions**

Usually, in Morocco the government seems to adapt legislation to reality. Thus, since 1971, there was elaboration of regional framework, because the government recognized the inability of the center to manage and guide local activities within the traditional *collectivités*



*locales*. Also, since the characteristics of the regions were different and sometimes antagonists, the center found out that the most efficient units of decentralization would be the economic regions. This latter would reduce inequalities among the different parts of the country.

Now it is largely admitted that regionalism is the best way for a sustained and solid development, because there will be mutual help between the *collectivités locales* and each one will compensate the weaknesses of the other one within a new unit that is legally recognized. This institutionalization will reduce fear of losing power since all of the *collectivités locales* work to achieve the same purpose which is the regional development.

Furthermore, economic region will alleviate the weaknesses of public administration's deconcentration and will contribute to the coordination among its departments. As such, the provincial or prefectural technical committee (*comité technique préfectorale ou provinciale*) was created to coordinate the projects of different ministries. The public administration center doesn't want to give up its power because it fears corruption and special interest groups. However, this has repercussions on responsiveness and efficiency in decision making.

Nevertheless, there was a transformation in the role played by the economic regions, especially after the elections of 1992. Now the local elected are younger, more determined and have a modern concept about local management, so usually they transcend the political rivalries in order to attain efficiency. They realize that the voters see what the elected do for them to improve their well-being and not indoctrinate them with ideology and demagoguery.

Thus, the principal feature and characteristics of the new elected is their look toward economy, market, growth, and how locals attract investors. In sum, they are pragmatic.

### **C. EVOLUTION OF DECENTRALIZATION**

Certainly, there is a real interdependence between the economic and political systems, because each one affects the other one. On the one hand, if investors are attracted and invest in a certain country, it is because it is not risky and will not, all of sudden, lose all or most of their wealth. Thus, political stability is very important. On the other hand, well-being leads to the development of education and collective consciousness. So, the more the people are satisfied the more they are integrated into the political system and actively participate to the enhancement of economic liberalization. All this requires a long-term investment in people, the legitimacy of the electoral process, local autonomy and responsibility, and positive expectations about the future.

Since its independence in 1955, the electoral process reflected the evolution of voters and the behavior of the elected, how they mutually conceive and see each other, and how the state changed in order to make the people responsible for their decision making. A look at the different elections of 1960, 1976, 1983, and 1992 gives an idea about the evolutive integration of people into decision making, how they are now more concerned with the evolution toward economic regions, and how they seek the consolidation of democratic institutions and integration in the global market.

## 1. The Elections of 1960

These were the first communal elections, so they were characterized by technical and political problems. This was the occasion to replace the traditional and tribal support by a political and democratic process, so there was a kind of confusion and lack of organization. Every political party tried to impose its view and conception about the elections. For example, the (*Union nationale des forces populaires-UNFP*) National Union of Popular Forces used its propaganda inciting people not to vote, so during the first days, the vote was slow. Nevertheless, after HM King Mohammed V's speech, there was more enthusiasm for voting.

However, the fact was that there were many problems regarding the organization and the electoral process itself. In fact, the estimation of the population was not exact, because of the errors made in the 1952 census, and underestimating the population's rate of growth. Also, in places where the political parties were dominant, there were not enough candidates. There was real confusion and a high number of candidates in regions where there was no political party impact.

The results showed the domination of two parties, the UNFP and *Parti de L'Istiqlal* (Party of the Independence). The latter one was the older and the most organized and held 40% of the global candidates.

## **2. The Elections of 1976**

The election of 1960 was an experience that had consequences for the elections of 1976. Even if the rate of participation just attained 66%, these elections were better organized.

The most important characteristic of these elections is the age of the candidate, more than 50% were less than 45 years old, 20% were between 25 and 34, and 31% were between 35 and 44 years old. Also, the candidates were more educated, because the percentage of illiterates decreased from 85% to 45%. All this reflects the improvement in the integration of a certain sort of elites in the process of election, and consequently, in the political system as a whole.

The competition among political parties was so tough that the voters seemed to be confused. Thus, the independent candidates benefitted from this cock fight; two-thirds of the elected were independents. This showed that the political parties existed. But they had not yet had the opportunity to influence the voters.

## **3. The Elections of 1983**

These elections were in fact the turning point in the consolidation of autonomy. The political parties were given the right to use the media, and TV to explain their agenda. This had a high impact on the level and quality of communication between political parties and voters. Also, there was the institution of coordinators designated by the political parties. Thus, the candidates began understanding what their role should be locally. The political parties also began to realize the impact they could have if they were well structured, and the

voters became more enthusiastic to participate and see what parts of their expectations could be realized.

#### **4. The Elections of 1992**

These elections had an unprecedented success, because there were many reforms and fundamental political transformations that strengthened the consolidation of liberalization. They also created such an eagerness toward participation in the political process, that even the former elected were seeking re-election.

Among these transformations there were:

- Establishment of a new electoral law, with provisions that provided for legal and judicial guarantees.
- Establishment of a new electoral list under the auspices of the local authorities.
- The financing of the political parties' electoral process by the government.
- Creation of (*commission nationale et commissions provinciales de suivi des élections*) a national commission and provincial commissions tasked with organizing the elections.

Thus, the financial and legal bases were created for the local authorities to exercise their rights and administrative attributions. In fact, it is important to emphasize the role played by these commissions in the success of these elections. On the one hand, since all the political parties were represented in the electoral process, no one could protest; on the other hand, these commissions particularly played a role of compromise and formal control.

The results of these elections reflect the enthusiasm of the elites and young generation to participate. Thus, two-thirds of the elected renewed their candidacy. Also, the percentage

of farmers decreased from 56% in 1976 to 28.42% in 1992, and the intellectuals increased from 8.87% to 14.74%. Thus, the parliament was essentially made of young, determined, and pragmatic officials. The important issues raised during these elections were the actual consolidation's level of autonomy and liberalization.

In summary, decentralization is among the instruments necessary to meet the modern challenges. The rational reasons regarding the management of the country including political, social, and economic factors, lead on the one hand to the recognition that decentralization is a means toward integrated development; on the other hand, they also lead to the realization of the individuals' capacities. In addition, the more people are a part of the development process, the more he is conscious of the realities and begins to be pragmatic and understand that ideology can nourish the mind but not the stomach. Thus, attract investment and improve the well-being of the people becomes the primary concern.

### **III. STRUCTURAL ADJUSTMENT PROGRAM AND ITS IMPACT**

With the increase of phosphate prices, Morocco began thinking about giving more importance to the process of decentralization and more autonomy to the local authorities. This, however, was delayed by the decrease of phosphate prices and the return to reasonable policies. It took Morocco many years to recover from this strategic error. This resulted in years of austerity and implementation of the Structural Adjustment Program (SAP).

#### **A. SAP AND ECONOMIC DIMENSION**

##### **1. Origins of the Crisis**

The main aspect in the Moroccan economy is the financing issue. This factor is primordial in the evolution of the economic indicators and social well-being. It is as important as the climate that determines the national growth. The positive combination of these elements gives Morocco good crop, oil process in industrial production and shows how Morocco has the potential to perform well in international system.

Since Morocco cannot have impact on the climate and has to submit to its fluctuation, the government essentially tries to use the international financing to reduce or offset its deficit.

The financing mode can be divided into three periods. The first, from 1957 to 1974, is particularly characterized by the international public financing from USA and France. The multi-lateral financing was less important, it was primarily through the International Bank for Reconstruction and Development. Mainly, this financing was at generous interests because

the international system seemed to understand that Morocco had just gained its independence; and thus, could not afford a high burden. This financing was allocated to build up basic infrastructure and projects that would support the economy. Some financing was for specified projects and purposes. Globally, there was about 63% allocated to the Public Treasury and 37% to the national organization for industrial financing.

The second period was from 1975 to 1982. In fact, in 1975 there was a decline in phosphate prices and an increase of the petroleum bill, which had a double effect on the economy. As a result, Morocco was obligated to use the international capital market to provide the necessary financing for running the economy. Because the public financing had not been aware that the capital market had been looking for immediate and high profits, Morocco had to bear the burden and accept the tough conditions. This was further aggravated by the drought during the 70s and the beginning of the 80s.

It is important, however, to mention that the Moroccan traditional allies did not give up. They did their best to help Morocco in this difficult situation. These government loans were primarily from the USA and France, and were aimed at compensating the balance of payments, import wheat, armament equipment, equipment to develop the agriculture, and exploitation of mineral resources. In addition, some Arab countries also contributed, but the most important share was from Saudi Arabia.

In 1982, the debt was so unmanageable that Morocco called the International Monetary Fund (IMF) and set up the Structural Adjustment Program (SAP).



## **2. Liberal Instruments and Environment**

The instruments usually used by the IMF in its program are:

- Restructuring the public expenditures.
- Fiscal reforms.
- Price liberalization.
- Improving procedures to attract investment.
- Liberalization of trade and review of interest rate policy.
- Restructuring the public sector and state-owned-enterprises.
- Liberalization of Bank loans leading to more competition.

The lack of local capital and a class of people who have a sense of risk and dare participate in the economy led to unexpected consequences. In other words, most Moroccans did not have the entrepreneurial sense. In fact, it existed, but it had traditional and outdated behavior that could not fit with the modern era and information technology.

Basically, the existence of an "economic mind and behavior" is very important. Also, it will be difficult to implement any reforms with success without the willingness and desire of the people to be a part of the national development. Liberalization and economic instruments are not sufficient, because in periods of satisfaction, the people don't think about the future and just enjoy the present. However, usually the crisis serves as an alarm to the players forcing them to analyze their future and strategy. When this happens, everyone

(public and private) begins to be more rational. This shows that a crisis has some good aspects that energize, rationalize, and galvanize people.

***a. Public Expenditures***

Without public reform and review of public expenditures, it is likely the process of liberalization would be inefficient. The public sector will live beyond its capacities, generating a public deficit.

The composition of the budget is the most significant indicator that reveals what the strategy of the government and its priorities will be. For example, does it try to balance the budget and have equivalence between receipts and charges, or are the charges higher than expected revenues? Also, what is the amount given to infrastructure, maintenance, health care, welfare, education, the military, and so on? In sum, the budget gives a global idea about the government's vision in managing the country. Reforms in this case mean a decrease of expenditures in order to decrease the deficit.

It is essential to recognize that infrastructure is very important; however, its repercussion on the economy should be prioritized and defined. For example, roads may be important to make transportation easier from one point to another, thus having a positive effect on the economy.

The repartition between maintenance (*fonctionnement*) and investment in the budget is also important. Some governments may give priority to maintenance in order to facilitate the administration's work. Instead, what can happen, is that the workers use these supplies for their own interest.

Education should also have a reasonable part. If education and training are well integrated into the global vision of production, research and development, and so on, human resources could have a high impact on skills, and on the present and future rational management of the economy.

No one denies the importance of aid in any activity. Thus, instead of borrowing, aid may be a supplement. However, the government must know that this money is gratis, and it should be applied toward useful and productive sectors, not in luxury expenditures.

***b. Tax Reforms***

Tax reforms are essential because they are the revenues for the government, but they can also be a burden for the taxpayers. A compromise should be found to relatively satisfy the two parties, because in principle high taxes kill taxes (*trop de taxes tue les taxes*). This means that when taxes are higher, people will try to find a way to minimize tax collection. The process of fiscal reform must take into account all the sectors and provide a global integrated vision.

In Morocco, many reforms were introduced in order to simplify and unify taxes, instead of having many different rates and categories. The results were significant, because indirect taxes were still high. Also, it is the government workers who pay the greatest part to ensure the revenues to the treasury.

Furthermore, business sectors always claim that higher taxes undermine their willingness of competitiveness and investment. The inconvenience of this high rate is that business sectors try to find ways to avoid or minimize it.

Another problem was tax collection. The country did not have the technology and power to collect tax. So, business companies knowing that the higher their company capital, the more tax they have to pay, sometimes split their company into two or three smaller companies in order to avoid paying high taxes. However, with the new reforms collection is more efficient.

### *c. Investment*

In order to attract investments, the financial liberalization opened up the domestic financial market to international financial flows, thus eliminating exchange control and eliminating entry barriers to foreign banks. So internally, it is establishing a set of reforms leading to more effectiveness, efficiency, and competitiveness.

Facts and theories both emphasize the role of investment in an economy and consequently, the importance of financing this investment. Certainly, the accumulation of real physical capital stock has always been viewed as permitting an impact on production and productivity, which leads to a future stream and improvement of income in society.

Labor and capital are variables that determine the function of production. So, capital accumulation results in providing the labor population with better equipment, and also in making a more extensive division of labor possible. However, all this depends on how this investment is allocated, because "an economy rate of progress is proportional to its rate of

investment."<sup>14</sup> Thus, the existence of capital accumulation and its rate of return is significant. Consequently, on the one hand some economists argue that countries are poor, because they are poor, and they will still be like this, which explains the "vicious circle of poverty and underdevelopment." On the other hand, others argue that these countries should just have the preconditions and they will follow the pattern of development. However, development has societal dimensions and economic factors are not sufficient to lead to an integrated development.

#### *d. Bank Reforms*

The capital of banks in Morocco is composed of local and foreign capital, especially from Europe, and it is among the prosperous sectors in the country.

These banks did not take any risk and just financed the short term investments, because the interest rate was determined by the government. They financed a project only after a long survey that sometimes made the client regretful. The financial system is based on who you know and on a solid relationship.

The capital transfer from immigrants working in Europe play an important role in the financial system. They give these workers a preferential interest rate to attract their capital. However, this transfer is decreased because when they want to invest, especially to build a house, they encounter many problems; for example; they cannot find somebody to take care of the project or even when they build their house and rent it, the tenancy law doesn't protect him enough.

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<sup>14</sup> Gerarld M. Meier, "Leading Issues in Economic Development," page 163.

Recently, the liberalization of the financial system gave way to a wind of competitiveness and more efficiency. Now, the interest rate is defined by market forces and each bank does its best to attract investors and capital flow.

*e. The Environment*

The economic package and indicators are essential; however, they cannot be enough, because other factors intervene in the process and sometimes they are uncontrollable, i.e., the climate, the international economic system, etc.

The stabilization program in 1978 and the three years program in 1980 could not have a positive impact due to a bad crop season resulting from the drought, the local resistance to the reforms, and also the international increase of certain items (matieres premieres). Nevertheless, the environment was favorable to the implementation of SAP in 1983.

Externally, the development of information technology and communications contributed to economic globalization and review of the traditional conceptualization. As pointed out by Kenichi Ohmae:

Because the global markets for all the I's (Investment, industry, information technology, and individual consumers) work just fine on their own, nation states no longer have to play a market-making role. In fact, given their own troubles, which are considerable, they most often just get in the way. If allowed, global solutions will flow to where they are needed without the intervention of nation states. On current evidence, moreover, they flow better precisely because such intervention is absent.<sup>15</sup>

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<sup>15</sup> Kenichi Ohmae, "The End of the Nation State," page 4.

Thus, it reflects that there is an interest upsurge about the market and its role as regulator factor in the economy, consequently the return to the liberal theories as basis to analyze the economic variables. However, the external environment interacts with the internal system, and so the strategy takes into account the Strength, Weaknesses, Opportunities, and Threats (SWOT) to deal with the future and its unknowable.

Internally, the implementation of the SAP was favored by the availability of people for change in order to alleviate their burden and dissatisfaction. However, what was important is that the change was not brutal and unexpected, because since the independence Morocco adopted the liberal system as philosophy to organize society.

The timing was also important, because the attempts and tests from 1978 up to 1983 were determining in rallying most of the population behind the program and austerity. In addition, at this time a new wave of thinking based on the value of the individual as engine for development and entrepreneurship began to emerge. Also, the family was a key point for supporting each other in case of problems, unemployment, or crisis.

The implementation of SAP is not an easy decision. Just deciding to call the IMF to find a solution to a crisis means that the economy attained an intolerable level. The program might have social risks, and the hidden voices have limits and can result in dramatic consequences. However, it is better to bear the austerity of the IMF, even if it has a high social cost, rather than waiting for the crisis to worsen.

Economically, the IMF uses liberal instruments and their combination to alleviate the problems, especially the financial ones, because capital is like blood for the economy; without it the system lacks vitality and sustainable vigor.

### **3. Trade Liberalization**

Any system doesn't exist just by itself, there are internal dynamics and also interaction between the system and the environment. Thus, in addition to internal variables there are other factors that can be determining in the amelioration of the situation and the achievement of a positive outcome such as non-economic factors. Mainly, the essential interaction (internal/external) is trade and how the country can compete within the international system.

The main question, or dilemma, is: should the process be based on an "opening up" of the economy and elimination of restrictions on foreign trade and capital flows, or is it better to go step by step toward liberalization and international competition? that is the question about trade speed, the role of policy coordination, and order of liberalization. The answer of the IMF is that there should be a liberalization of trade and integration of the economy in the international system.

Thus, the policy recommended by the IMF, since 1983, is:

- Import liberalization, so most of the products were included in list A which is composed of products that are not submitted to the establishment of import license.
- Reduction of tariffs, so if they were 400% in 1984, they became 35% in 1993.
- Elimination of the need for authorization prior to export and simplification of international commerce.



- Elimination of the monopoly for exporting agricultural products.
- Modernization of enterprise's fiscality.
- Joining the GATT in 1991.

In fact trade liberalization cannot be implemented without analysis about the adequate speed of liberalization. Many conditions should be realized before opening up the country to the international system, and be conscious that what was a success in a country may fail somewhere else. That is why there was a lot of controversy about the IMF strategy.

Furthermore, a coordination of policies was necessary. Opening up the country trade was not sufficient. The economic sectors should have been able to compete in this new environment with foreign enterprises that have enough capital, know-how, technology, power, and ability of competitiveness. So, there should have been a complementary vision, effectiveness, and efficiency among all the sectors. As a result of IMF programs there was amelioration of the rate of compensation of the export by import (taux de couverture), so if it were 40.6% in 1977, it was 76% in 1988.

Generally, in some countries, and it was the case in Morocco, trade liberalization was implemented during periods of crisis after enduring problems of protectionism. This means that it was under internal and external pressure, and not freely chosen after a long analysis and investigation of which way to succeed. So, it was likely that trade liberalization would have been risky and subject to failure.

The "demonstration effect" of theories had proven that trade leads to the exploitation of comparative advantage and also the opportunity to exploit economies of scale. The import

of capital goods and increase of supply resulted in an efficient and adequate competitiveness without distortion of the system as a whole. Also, it was a stimulus for the local production to be more innovative, creative in investment, in product design, and marketing. All this is proof that restrictions result in apathy and the assumption that demand exists, and it is not necessary to improve production or introduce innovations.

Restrictions would have broken up anyway in one way or another, because some enterprises have alliances with the authorities, so they help them to obtain the appropriate government licenses for specific products, and import them legally. Thus, what is the importance of rules, when in practice they are not executed, but violated. Also, for the administration this control results in high cost (personnel, facilities, equipment, etc.) and, as such, protectionism leads to distortion of market forces.

#### **4. International and Financial Issues**

The history of the evolution of the economy shows that the financial aspect was very important in the outcome, growth, and development. The maxim "when the financial flow is well everything is well" can be applied to the Moroccan economy. It is the dynamic catalyst that galvanizes society as a whole, and also gets the national policies in tune with the international economy.

Actually, almost all the contemporary national economic systems are articulated in the international system. From the economic point of view, a system is dependent when the accumulation and expansion of capital cannot find its essential dynamic component inside the system. So, there is a stage at which a country should consolidate its economy, give

opportunity to foreign capital flow to participate in the development and emergence of a sense of entrepreneurship. However, as a liberal system, Morocco tried to do so, but the international financing is always driven by immediate profit, rather than thinking about the long-term and the managerial strategy that can lead them to have a part of the local market, and also have the confidence of the government and the elite. These are the reasons that led Morocco to be cautious in its strategy and policies toward the international system.

Furthermore, lack of capital is a real constraint in financing projects that may have repercussions on growth and the economic take off of the country. So, the best way was to establish attractive conditions and flexible institutions capable of driving a "multiplying effect" on the economy. The limits and scarcity of capital incited to an efficient use of foreign capital, not in unproductive sectors, but in sectors that have short-term, or even long-term impact. It is necessary to recognize that even infrastructure is important in consolidating the nation's basis.

As for the international sector, private financing had been, for a while, very strict in their financial packages. They came to the conclusion that it would end up with a disaster, if they went on that way. Thus, they revised their strategic policies and became more flexible and understanding of the crisis in these countries, because if the international economy doesn't turn and work as it should, the international system would break down. Especially now, with the collapse of the communist system, the time of ideology is over and it is a time of pragmatism, the international system will be tougher and only the strongest would survive (kind of natural selection), unless there is cooperation and mutual help.

Thus, recently progress was made in resolving commercial bank debt and restructuring packages. This progress was the result of the willingness of countries and banks to try to understand the problems of the other. Before that, Morocco was just thinking about ways to pay the debt-service, but now at least banks believe that

Even with good policies, in the absence of debt restructuring, a number of these countries face difficult external prospects. It is important that debt restructuring results in a stream of debt-service obligations that the country can meet while also achieving the satisfactory growth performance necessary to sustain the momentum of sound policies.<sup>16</sup>

The adjustment program was hard to support, particularly in welfare areas, but anyway the results were positive.

	1982	1994
Budget Deficit	12 %	2.2 %
Inflation	10.5 %	5.2 %
Current account deficit	12.9%	2.1 %

Table 3.1. Results of the Adjustment Program

This comparison gives an idea about the amelioration in the economy and now many observers began to consider Morocco among the promising emergent markets. However,

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<sup>16</sup> International Monetary Fund, "Private Market Financing for Developing Countries," page 3.

there is still a lot to do in order to improve the public sector and make it more efficient, because government workers think they are not well paid, which give them no incentives to do their best for the national interest. This open doors to professional unconsciousness and individual interest.

## **B. SOCIAL ASPECT OF THE SAP**

The IMF and economists have great tendency to advice a country to adopt liberalization policies and adjustment programs. However, when this advisor is invited to give his recommendations, he finds himself operating in an environment where not only the economic variables have to be corrected, but also political personages are subject to a limited tenure in their present posts. Thus, for non-economic reasons, policies turn out to be a failure due to a lack of coordination between the economic, political, and social systems. This was the main reason for the strike in 1981 during the implementation of the stabilization program.

The social budget is composed of education, public health care, housing, craft industry and social affairs, cultural affairs, veterans, employment, youth and sports. Expenditures allocated to education and health care represent about 77%, so we will focus on education, employment and health care.

### **1. Sap and Education**

Even before the emergence of the crisis, the educational system required a deep transformation in order to meet new changes and technologies. However, with the upsurge of the crisis, the government found itself facing the rational proposal of the IMF to improve the situation.

These proposals were to some extent tough to swallow. In fact the financing by the World Bank was based on the requirement to rationalize the management in this sector. Its conditions were approximately as:

- Families should share a part of the expenses burden.
- Make the system more effective by adapting the educational system and learning to the national and practical needs.
- Reduction of the subventions given to students at universities.
- Rational management of the human resources and facilities.

Globally, all the proposals are aimed at reducing the investment and functioning budget and making the management more efficient.

In fact, from the beginning, the Education Ministry introduced many reforms that were already defined and analyzed. They were:

- Definition of rules to repeat a grade at the school.
- Definition of regulations for allocating subventions to students at university. So, the subventions were no longer automatic but they were based on merit system.
- Increase of teachers' duties (teaching) by almost 20%.
- Reducing the recruitment of teaching personnel by at least 15%.
- Limiting the registration of government's employees at universities.
- Introduction of registration's fees.

Either the W.B. proposals or the Ministry's, they all were accommodated with the evolution of the environment and circumstances, because any error could have fatal consequences on the implementation and the future as a whole.

These consequences were particularly hard for the rural areas, because generally these people are the first to face the repercussion of reforms. Some of rural parents seem to perceive a child as an investment who can help work the land; so are reluctant to send their children to school or schools that are far from the villages. Thus, the registration rate in 1988-1989 was less than 46%. This raises many questions to determine the reasons behind this lower rate:

- Is it the parents' perception that a child is an investment which means that they think more about their interest rather than the child's.
- Is the reduction of the budget that limited the number of schools and therefore, since the population increase, the distance ( houses are related with land size, so density houses is low) and class capacity increase which lead to lesser efficient teaching.
- Is it the fault of the teachers who, since they are not controlled, don't do their job correctly.
- Are school meals incentives to attract people to school and alleviate the burden of child's food because of the long day teaching.

All this justifies that any minimum reform (positive or negative) can have high impact on rural education.

As for the urban areas, it depends more on the revenue than any other indicator. The rich people would not be effected by reforms since they send their children to private schools.

As for the middle class, generally, it sends its children to public schools and help them at home to do their home work and improve their learning, or the kids attend affordable private schools. However, the poor face the burden with all their strength. Though, relatively inexpensive, some furniture is not affordable for them; if so, how can a child go to school without the minimum required? Usually, working in traditional sectors is the solution or with parents.

In addition, with the SAP the social mobility (vertical) decrease because of the budget decrease. Also the spatial mobility decrease, because some teachers are in a rural area and want to change to an urban ones, but it is not possible. As a result, some could no longer do their work consciously and might become carefree.

Nevertheless, the SAP was the opportunity for the establishment of private schools and universities. Because there is competition in this sector, these schools provide high quality education. The remark is that these schools tend to specialize in modern curriculum, like management, engineering, information systems, etc.; however, most of these institutions are in the capitals, Rabat and Casablanca.

It is unquestionable that these private institutions contribute to the emergence of a generation of managers, skills, and responsibilities that fit the needs of the marketplace.



## 2. SAP and Employment

During the period 1973-80, the Moroccan economy knew a high growth. As a result, employment and investments were positive. However, with the crisis, the implementation of SAP had an impact on the labor market and level of employment. This working population is composed of urban and rural employees.

With the increase of urbanization, the rate of the urban working-age population (15 years old and older) increased from 62% in 1982 to 67.2% in 1992.

Year	Urban Working Population
1984	2,825,037
1985	3,004,679
1986	3,211,954
1987	337,003
1988	3,503,764
1989	3,732,458
1990	3,895,126
1991	4,095,393

Table 3.2. Evolution of Urban Working Population (Millions)

As a matter of fact, the evolution is determined by short and structural factors.

The relationship between the labor market supply and level of families' well-being highlights the impact of SAP on the evolution of social expenditures. It gives us an idea about the categories of people looking for jobs and their composition. These persons looking for jobs can be educated, graduates from universities, or just poor people trying to find a job where they can learn on site.

Basically, there is a relationship between the growth rate of the population and employment. Also, poor families are characterized by a high number of family members. The average number of members in a poor family is 6.6 members in urban areas and 7.86 in rural areas. The average number of members in a rich family is four. In addition, the poor are more illiterate and the percentage of children attending school is very low, especially in rural areas. This rate is 88% in urban zones and just 41% in rural zones. The rate is low even for professional training. The rate of poor families attending the professional training school is 6.2% compared to 26.8% from rich families. This reflects the nature and skills of people with the prospects of looking for a job.

The supply market is aggravated by a migration movement from the land. These people increase the number of unemployed and have an impact on the creation of shanty towns and the problems they associated with drug dealers, criminality, and lack of hygiene, etc. The estimation of people that drift from the land is about 300,000 persons a year. This number increases in times of drought, when some of them sell their land and go to the cities adding to the number of unemployed masses. In fact, 48.2% of the people moving to urban areas are seeking jobs and 6.7% for studies (school, university, professional training schools, etc.). As for the labor market demand, the implementation of SAP had effects on recruitments by public administration, reduction in publicly owned enterprises and even in the private sector. In fact, the recruitment by the public administration doubled from 1971 to 1982 increasing from 225,000 to 517,000; but after 1983, the average became between 10,000 and 15,000 a year.

Year	1980	1981	1982	1983	1984	1985	1986	1989
Numbers	41,173	33,666	45,267	19,414	10,033	10,544	14,600	11,000

Table 3.3. Evolution of Government Recruitment (Thousands)

Before the crisis the government was the main organization for recruitment; but with the crisis, the government limited recruitment to a tolerable minimum in the main sectors and tended to increase productivity and efficiency in other sectors. The reduction of the part in the budget allocated to the investment decreased from 20.7% of GDP in 1977 to 6.2% in 1987. This reduction had an impact on the private economic sectors and their level of recruitment. As a result, the implementation of SAP increased unemployment and contributed to the dysfunction of the labor market.

- Women are the more effected by unemployment.
- Most of the persons seeking jobs are young.
- Unemployment is aggravated among graduates.

In summary, the implementation of SAP had an impact on employment. However, in 1992 there was a reduction of unemployment by 7.5% and certainly privatization and investment that attract will have a positive impact on employment.

### 3. SAP and Health Care

The implementation of SAP also impacted on health care. This is reflected through the analysis of the budget allocated to this sector, its effect on health care supply especially

by public hospitals and reforms. In fact, with SAP there was a change in the importance played by public health care, its organization and role of the private sector.

A look at the evolution of the budget allocated to Public Healthcare Ministry (PHM) shows that there was an average increase by 9.7%. However, the part allocated to functioning (fonctionnement) represents four-fifths of the PHM's budget, and only one-fifth to investment. Also, in 1980, 67% of the maintenance budget was allocated to personnel salaries, compared to 73% in 1985 and 1991. Thus, this shows that materiel played a small part. However, this began to change since then. In addition, the part of PHM's budget in the social budget is 13.5%. The part allocated to maintenance within the social budget was high for a long time compared to the part allocated to investment; however, this began to change since 1989, which increased investment in public health care.

As for the part of the part of PHM's budget in general budget, it represented 7.8% in 1965 and since then it decreased to 2.9% in 1975 and 1977; however, it increased since 1987, and was 5% in 1992.

This budget evolution had an undeniable effect on the organization and healthcare supply of PHM. The PHM is composed of a basic healthcare system that provides preventive care and includes hospitals that provide curative care.

The creation of basic healthcare units (BHU) was 35 units a year between 1980 and 1991. However, there is regional disparities in the creation BHU, because in the west there should be an extension of BHU.

Although with the implementation of SAP, the number of hospitals increased; however, some hospitals are dilapidated which has an impact on the amount allocated to their maintenance. The national morbidity rate is about 15.2%; nevertheless, there is a difference between social classes, because the rich declare themselves sick more often than the poor. Also, with the same revenues, more urbans declare themselves sick more than rurals. As for the private sector, its role increased; however, most of the private clinics are in the main cities like Casablanca and Rabat.



#### **IV. PRIVATIZATION**

The evolution in the national and international arenas led many countries to proceed to a complete, partial, or temporary privatization. In fact, in recent years privatization has attracted more attention. This reflects a world wide interest in reducing the role of the government in the economy.

The rise of this phenomenon occurred with Margaret Thatcher; and it was her major instrument par excellence. The Reagan era knew the same appeal for privatization. Both of them gave to privatization a pronounced ideological impetus to what became the privatization movement. Furthermore, the collapse of the communist system gave an explicit and clear justification to the difficulties encountered by centralization and the limits of state owned enterprises to create economic synergy. This generated the upsurge and belief of the importance of the market and its effect on development and growth.

Morocco, itself, was tempted by this wave and began to privatize many state owned enterprises. However, in Morocco this was a consequence of the recognition of the role of decentralization that was implemented many years ago, the inefficiency of the public enterprises, and the success of the structural adjustment program defined by the IMF.

Our approach will focus on the theoretical basis of privatization and the practical in Morocco. We will analyze the reasons behind the privatization, its strategies, and its evaluation.

Theory and facts led to an unprecedented willingness for reassessing the role and contribution of the state into the economy. This determination reflects the need for a shift in conceptual instruments and also the belief in rethinking the development paradigm.

This shift is the result of many reasons. Each one of the two main actors (public sector and private) has its own way and strategy to manage its patrimony; however, the facts confirm the adequacy of theory and positive impact of the market on growth. Nevertheless, why this rapid evolution in analysis, and especially now? Finally, to what extent is this change better for the general interest.

Since we are going to analyze the change from the public (Pb) to the private (Pr) we will determine who are the players within this change, why this change, and its evaluation.

#### **A. PRIVATIZATION STRATEGIES**

Privatization can be defined as "shifting the production of government goods and services, or ownership of assets, into the private sector."<sup>17</sup> Also, it is defined as reducing the role of government, or increase the role of the private sector, in an activity or in the ownership of assets.

Privatization can take three major forms: <sup>18</sup>

I. By divestment

A. Sale

1. private placement
2. public sale
3. Management buy-out
4. to employee

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<sup>17</sup> Sharon Nuskey, "Privatization," in Global Business White Papers, No. 5, July 1992.

<sup>18</sup> E.S. Savas, "A Taxonomy of Privatization Strategies," in Policy Studies Journal, Vol. 18, Nr. 2, Winter, 1989-90, page 346.



5. to users or customers

B. Donation

1. to employees
2. to users or customers
3. to the public

C. Liquidation

II. By delegation

A. Contract

B. Franchise

1. public domain (concession)
2. public assets (lease)

C. Grant

D. Voucher

E. Mandate

III. By displacement

A. Default

B. Withdrawal

C. Deregulation

All this means is that privatization can take many forms. It can be complete or partial ranging from the production of individual goods to collective goods and also to the furniture of public services. In fact, in practice, privatization depends on how well it was prepared and analyzed. Because theory is the framework, but reality integrates factors that are beyond predictability, each country has its degree of success or it might lead to failure and confusion.

## **1. Moroccan Strategy**

Thus, Moroccan privatization strategy has its characteristics, its features, and the most important element in that it is the result of many years of thought, concern, and surveys.

As a matter of fact, the Moroccan government recognized the problems resulting from the State Owned Enterprises (SOE) management and tried to find solutions to it. So, the government called foreign consulting firms to find the strength and weaknesses of the public sector and make recommendations for better efficiency.

Thus, in 1974 the Finance Ministry called the international consulting firm Machinsey to evaluate the management and control of the public sector. Its severe diagnosis and results showed that the management and control's systems were imbalanced and that there is a differentiation in the autonomy given to the SOEs.

Its recommendation was to set apart and reassess the management and control's systems, thus avoiding their overlapping. Moreover, the suggestion was to establish a forecasting department to evaluate the evolution of the SOEs performance, and to split of the department of the budget into two different departments, making one of them responsible for the public administration and the other one for the SOEs.

In addition, the world bank held a survey by the American consulting firm Scialli, Vaurs and Arthur Anderson regarding the important and possible economic structural transformation. The purpose was to find ways and optimal to efficient restructuring. Its outcome was the fact that the government should determine its assets. Also, it should have

an exact idea about the social, economic, and financial performance of the SOEs and their evolution.

All this means is that the Moroccan government didn't all of a sudden and after the wave of privatization around the world, begin privatizing its SOEs. The recommendations of the consulting firm were that the government should know which SOEs to privatize and to whom to sell them. The reasons were that the government should have a long-term strategy and that privatization should not mean; first, getting rid of the SOEs and second, forgetting its social and economic consequences.

Thus, based on foreign surveys and local analyses, the government proceeded with confidence and vision. In fact, the Moroccans didn't use the term privatization but "transfer." The latter one has less political connotations, and it also means just the change in the ownership from the public sector to the private sector in order to attain multi-purposes. These tasks were defined in the 39-89 law-bill as:

- The stimulation of the sense of risk and enterprise.
- The creation of regional and national shareholders.
- The encouragement of international partnerships.
- The consolidation of the industrial base through the establishment of small and medium enterprises.
- The generation of employment.

In summary, in creating the adequate environment for constituting of the market, the first step was the establishment of a list of enterprises that would be privatized. This list comprised:<sup>19</sup>

- 44 industrial enterprises.
- 38 tourism institutions.
- 18 service enterprises.
- 9 banks, insurance companies and loans organizations.
- Agriculture enterprises.

So, if we take into account all the filial the number will the privatization of 300 SOEs out of 680.

Law provides four methods of selling SOEs: requests for bids; direct negotiations; sales of shares to the public (initial public offerings); and a combination of these. However, in many companies arrangements were made for workers to buy shares, which certainly will have consequences on efficiency.

The most important characteristic in this privatization is the constitution of a "hard core." This reference shareholder has the financial, human, technology, and know-how that will help the company be more efficient and have coherent vision and strategy. This hard core cannot sell any sooner than five years or it will be obliged to contribute to the performance of the company. Also, a part of the shares were for the employees if they want to participate.

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<sup>19</sup> Sous la direction de Driss Guerraoui et Xavier Richet, "Strategy de Privatization comparaison Maghreb-Europe," page 130.

In fact, there was over-subscription to the point that some bought shares in the name of other persons.

As a matter of fact, privatization is not a simple equation to solve, because in any form of these procedures there are many actors who intervene in this change. Each seller and purchaser try to take advantage of the situation and gather information to gain in decision making under uncertainty.

## **2. Agents of Change**

Each intervener into this change tries to detain much more information about the privatization. The responsible of state owned enterprises keep some data or may give them another significance to make the private willing to pay a high price and consequently increase the welfare gain. Also, the potential buyers look for information to know what will be the best bid, what are the minimum and maximum prices, and what are the competitive firms that are intending to participate. The citizens evaluate how this privatization affects them and may show their opinion through many channels.

We will enumerate the different actors, and as far as possible, try to analyze the trade off of this change:

- Citizens: the government revenue will have incidence on the reduction of deficit, reduced taxes, reduced inflation, or improvement in the quality of goods and services. However, this may lead to the appearance of a part of the population who can no longer be beneficiary of goods and services.

Certainly in Morocco privatization will lead to the reduction of budgetary deficit that constraints the economic growth, and so it would contribute to a sustained development. So

far there is no project to review tax rates; in fact, enterprises always claimed that taxes were high and undermined their investment and employment projects. As for inflation, it was regulated with the reduction or freezing of some components of the budget like salaries and government recruitment. Obviously, privatization will result in higher prices, but more importantly it will give way to more competition and quality in products and services. Now many enterprises know that they are in a monopolistic and strengthening position, so they sell mediocre devices and are sure that the citizens have no alternative.

Furthermore, it is certain that some part of the population cannot afford some products and services. But globally the economy will be better off, because objectively so far there is no economic democracy and no one around the world can boast having a perfect justice; thus, pragmatically, a strategy should take into account efficiency and growth and have lesser morality.

- Consumers: This will certainly affect the price/quantity/quality components, and consequently modify the pattern of access to goods and services.

Depending on the pattern of production between private and public sector and the weight of each one of them, consumers have to deal with this situation and accept price and quality; especially in countries like Morocco where consumers have no way to pressure and lobby the system. Thus, each one stands in his position, that is, consumers are dissatisfied and cannot protest, and also the producers are in a solid situation and don't care about the consumers and just think of high and immediate profits. Privatization will modify force and

weight pattern and globally consumers will benefit. At least they have different qualities and every one can buy what he can afford.

Consequently, purchasers benefit insofar as they pay less than the price they were willing to pay. It will determine their ability to adopt new strategies, management, and to know how to increase their part of the national and probably the international market.

- Providers of inputs: With the state owner enterprises they have the opportunity to manipulate the system in order to increase their sell of inputs since there is inefficiency and waste of resources.

Unlike with the SOEs, the providers will have to be more aggressive, use marketing and managerial strategies, show and persuade that their products are worthy to be bought, and list what makes them different from the other companies and products.

No one can deny the collusion that can exist between managers and providers but at least it is less provocative, because managers are accountable and analyze risks and know the point to which they can be in connivance with the providers.

- Patrons and technocrats: they behave in a way to minimize their loss, because the ideological and political power will no longer have any effect. After a sale just the efficiency and rationality will guide the decision making.

In fact, we cannot blame all the patrons and technocrats, because on the one hand there are some who are really competent but sometimes they have to deal with the political and ideological system in order to keep their job otherwise they will be fired. On the other hand, there are persons who are in that job just because the Minister is a friend who has the

same affinities, or he is imposed by the political party. Thus, privatization will make things clearer as to who is not competent and cannot aspire to that job.

Certainly each actor has different interests in privatization. However, what are the reasons that incite the government to privatize, and what are the obstacles to this change?

## **B. REASONS, DISADVANTAGES AND OBSTACLES FOR PRIVATIZATION**

This process has its foundations in the fact that one side (state owned enterprises) show weaknesses and failure in its management, and the other side demonstrates its dynamism, ability, and performance.

### **1. Failure of State-Owned Enterprises**

The state owned enterprises can be defined as "publicly owned organizations which produce private goods whose selling price is related to their costs...the government retains some authority to intervene directly in the delegated production arrangements and effect major policy changes when it is deemed necessary to do so."<sup>20</sup>

This means that these enterprises are less free in their decisions, should satisfy many objectives which may be paradoxical and act under constraints. All this generates distortion in decision making and lead to inference of the political system in the management of these organizations.

In fact, these organizations were created to correct some problems and inequities resulting from the market. Also, the willingness of economic planning in short and long term

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<sup>20</sup> Colin Lawson "The Theory of State- owned enterprises in Market Economies," page 283, Journal of Economic Surveys, Vol. 8, No. 3, 1994.



resulted in their increase. The recognition in the necessity to alleviate some charges on the poor and lower class determined the direct intervention of the government.

However, facts revealed the failure of these assumptions and incited government to get rid of these organizations which are more and more a burden for the government and the people as well. In this context E.S. Savas defines reasons for privatizing the state owned enterprises:

- Reduce government expenditures;
- Raise efficiency;
- Improve quality and responsiveness;
- Increase government revenue;
- Broaden ownership of economic assets;
- Decentralize the economy;
- Accelerate economic development;
- Attract new investment;
- Attract new investment;
- Satisfy foreign lenders;
- Gain popular support;
- Punish political opponents; or
- Reward political allies.

Finally, some constraints to the market can provide a strong rationale for government intervention, this intervention need not take the form of public ownership. However, practically, the SOES didn't reflect the assumptions that were made for their success, because there were no incentives, high risk aversion or performance.

## **2. Power of the Market**

The collapse of the communist system confirmed the weaknesses of centralization and planning in the economy, denied Marx belief in the break down of the capitalist system, and demonstrated the power of the liberal system to innovate and find out solutions to its crises.

Competitiveness and individual interest give way to more rationality and efficiency. Obviously, each person is driven by his own interest; however, when we have, for example, two persons there should be a compromise, and the "differential interest" will depend on their respective power. Thus, like Adam Smith's "invisible hand" there will be an outcome which is the resultant of all interests.

Unlike demand, supply and instruments of the market which bring about equilibrium, regulations, and control can be manipulated and broken. For example, in the case of international trade, the person who delivers licenses can influence import and give the license to whomever he wants. Basically, there is always a way to break the rules and escape to control.

Furthermore, the private sector is doomed to innovate its technology, management, and seek sustained growth in order to survive. It can take advantage from some innovations

for a while, but it never has the opportunity to monopolize the market, impose prices, and increase the producer surplus.

With privatization the Moroccan market begins to show signs of dynamism. Moreover, since the openness of the market, products that were produced by the SOEs are produced by other local and foreign enterprises. Thus, now competition becomes more rough and difficult, and only the best can survive.

Even if we should recognize the failure of the state owned enterprises, this should not obsess some disadvantages and obstacles to privatization.

### **3. Disadvantages**

Certainly, it has many positive impacts on economic growth but it may lead to an increasing gap between the rich and poor. Thus, the poor will vegetate and the rich will prosper. However, in Morocco the establishment of hard core shareholder increased efficiency and coherence, because the Moroccan government didn't sell the enterprises to firms that it knew would not contribute to the long-term economy. In fact it was not only financial trade but also trust and mutual understanding. For example, S.I. Leasaffre sold 33.34% out of 35.73% transferred and S.I. Leassaffre financed the employees shares; so, 82% of the employees participated. This method will make the employees a part of the enterprise, they will do their best and be productive, and also psychologically, they understand that the hard core is on their side and they can count on it in periods of crisis.

Also, the emergence of individualism and the search for an immediate profit will be the indicator of decline in the sense of community. Thus, seemingly everyone should count

on just himself and not wait for the help of others. Also, cooperation will lead the place to competition.

Furthermore, it is correct to say that market leads to rapid development and growth but by reducing the role of the government, the ability to redistribute wealth is impaired because the resources were not well allocated after privatization.

Facts demonstrated that for many years the SOEs could achieve the theoretical purpose, so distribution could never have been attained. Thus, maybe if the forces are well exploited the growth will result in an increase of revenue and well-being will spill over.

#### **4. Obstacles**

The most determining element is ideology, which means how to find a way to convince people of the adequacy of the decision especially in countries where the state is the benefactor of the people, and also where the people used to count on government assistance. Some fear that there will be a loss of control by the government and consequently their well-being will suffer; especially when it is recognized that the state owned enterprises employ more than it should be and this divestment will engender dismissal of many employees. Thus, in Morocco certain boundaries were defined with the owners in order to keep employees and not to sell its shares sooner than five years.

Privatization can be subject to many obstacles that limit its effectiveness. The lack of competitors and sufficient number of bidders can lead to underestimated prices, because the public sector may be obliged to revise its price and meet the willing price submitted by the

bidder. Privatization in Morocco didn't encounter this kind of problem since in almost all the cases there was oversubscription.

Also, for goods and services that will pass under private control, there should be many providers to avoid the problem of private monopoly. This monopoly will just aggravate the situation by increasing price and imposing modalities at the expense of the general interest. The best way in this case is to allow foreign companies to participate, increase competitiveness, and restrain domestic monopoly. Moreover, these foreign organizations will certainly bring new technology, new style of management, and revitalize the economy.

Another element is the capacity of the financial market. Its size, role, and impact play an important factor in privatization. Its weakness can restraint and limit the divestment, and how people conceive the financial market. In some countries, particularly in less developed countries, there is no tradition to use this market. The people prefer investing in durable products (houses, gold, etc.). However, in Morocco privatization had influence on the Moroccan stock market and increased the number of popular shareholders.

### **C. WELFARE GAIN AND PRIVATIZATION IMPACT**

Basically every country when it proceeds to privatization tends to believe that it will have a positive effect on the economy. However, this is not always the case since there are many countries in which there is a difference between what was expected and what effectively happened.

## 1. Welfare Gain

The welfare gain determines the effect on the producer surplus, consumer surplus, and the economy as a whole. It can be better off or not depending on how this was implemented.

The dilemma here is that "if a public enterprise is making money, the government won't sell it; if it is losing money, the private sector won't buy it."<sup>21</sup> So each one will find a way to come up with a positive gain from the divestment. On the one hand an unprofitable company can be sold at good price if the potential buyer believes that restructuring and change in management style will make it profitable; however, the question is to what extent this restructuring will affect the profitability without effecting the social welfare, consequently leading to protest and undermining the next sale. On the other hand an unprofitable enterprise may be sold at a low price just to get rid of it, because of its burden on budgetary deficit.

In fact the government would sell if:

$$\Delta w = \lambda_c \Delta C + \lambda_p \Delta \Pi + \lambda_g \Delta G$$

Where

$\Delta w$  = Welfare gain

$\Delta C$  = Consumer surplus

$\Delta \Pi$  = Producer surplus

$\Delta G$  = Government gain

$\lambda$  = Weight attached to each component of welfare.

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<sup>21</sup> Leroy P. Jones, Pankaj Tandon, Ingo Vogelsang, "Selling Public Enterprises: A Cost-Benefit Methodology," page 3.

Also if the social welfare is positive it means that:

$$\Delta W = V_{sp} - V_{sg} + (\lambda_g - \lambda_p)Z > 0$$

Where

$V_{sp}$  = Welfare after the sale

$V_{sg}$  = Welfare before the sale

$(\lambda_g - \lambda_p)Z$  = Welfare effect of the sale transaction itself

This expression is called the fundamental formula of divestiture; actually the purpose of the government is maximizing  $Z$ .

Unfortunately no one can put divestment into equation and estimate the trade off, because there are so many factors distorting divestment, and obviously there will be winners and losers resulting from this process. Practically there is divergent interest between the protagonists and each one try to use manipulation, ideology, power, and politics to alter the outcome of privatization.

## **2. Implication on the Economy**

Obviously there is no recipe for a good or bad privatization, because in each country the forces determining it depend on many factors that may be contradictory. For example, it relies on the reason that allowed the government to privatize its patrimony, on the power of the market to capture the prospect profitability of these companies, sociopolitical circumstances, and the perception of liberalism and capitalist system as a way of managing society.

Forces weight led to different patterns. Basically the implications would be different even if the expected outcome is the benefit of privatization. In fact "additional economic benefits might follow from unleashed entrepreneurial activity, accelerated capital market development, better use of scarce administrative resources, heightened productivity on the part of remaining public-enterprise managers and workers chastised by the divestiture of their peers, and other indirect effects."

Internationally, it will be the factor to attract foreign investment and alleviate the problem of financial scarcity, reduce debt, reduce budgetary deficit, and improve balance of payments. Consequently privatization would lead to gains through macroeconomic "activation effects."

In summary, privatization is the best way to redistribute weight forces between public and private sectors, enforce the role of the market, and give way to the emergence of synergy, sense of risk, and entrepreneurial willingness. People acquire more freedom, but at the same time are obliged to face reality and demonstrate what their potentiality is. Privatization led Moroccans to be more determined, pragmatic, and rational in their strategy.



## **V. THE SUSTAINED CONSOLIDATION OF THE MOROCCAN MARKET**

The new era brought a new concept in dealing with the economy. The international financial system became aware of the competition among the leading countries; the rational decision was to financially help potentially developing countries in order to regenerate the international economic system. These decision makers knew that they would have a return on their investment in the medium or long-term. The bottom line is the globalization of the economy, the consolidation of the liberal system in the former communist countries, and a demonstration that the liberal system has an advantage in dealing with economic issues. In fact this concept was widely known as the "Washington consensus."

### **A. MARKET AND INTERNATIONAL SYSTEM**

This change is primarily the result of the collapse of the communist system, wherein the liberal system took the opportunity to consolidate the role of the market in order to make it more attractive. Also, in many former communist countries, this allowed consumers and producers to enjoy the benefit of free trade and competition in the local market. It provided the opportunity for the consumer to buy whatever was desired.

However, this period was just a transitional one and the first euphoria began to fade. We should keep in mind that about sixty years of government intervention appears to lie in one of the economic cycles that seems to characterize the global economy.

The trend is, in the medium-term or long-term, that there might be a return to conservatism and control of the economy. Certainly, globalization would be in a way that

states would have less power, and corporate and transnational holdings would lead to the making of economic policy. Thus,

individual nations might, of course, do a little better or a little worse in the global marketplace. The quality of citizens' lives in one nation might improve a little faster or slower than in another. The industrial mix of value-creating activities might look a little different than it otherwise would have looked. But, surely, the information-led transition to a genuinely borderless economy would not call into question the relevance of nation states as meaningful units of economic activity. Nor would it call into question the ability of governments to "manage," at least in general terms, the evolving shape of that activity. Nor - at the bottom of it all - would it challenge the fundamental integrity or coherence of the nation state itself.<sup>22</sup>

This assumption relies also on the fact that now everyone realizes that the time of ideology is over; dictatorship cannot resist societal change. As a result, the future would be focused on political pragmatism and rational decision making.

It is not only the consolidation of the market that permits Morocco to be in a good position to face the future; there are also social and political considerations. In fact, the Moroccan society is homogeneous, much more mature and, with privatization, the middle class begins to be a class of stockholders that certainly would take an active part in the economy. The Chilean economy case shows how popular stockholders contribute well to sustained development.

Politically, the consolidation of democracy, political stability, and the leadership and national interest symbolized by HM King Hassan II, gave Morocco the opportunity to become

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<sup>22</sup> Kenichi Ohmae, "The End of the Nation State, the Rise of Regional Economies," page VIII.

the potential privileged intermediary between Europe, Africa, and the Middle-East, particularly because of geography and with the tunnel project between Morocco and Spain.

In fact, some emerging markets appear to be in good health; however, some of them may have some difficulties. The reason is that, depending on the region where the countries are, competition will be tough. If these countries don't diversify their assets, activities, and markets, they can collapse again. There is also the problem of political stability and social homogeneity; for example, Nigeria and its internal problems that undermine the economy. The Mexican crisis with its problems would be an example that marks the beginning of the deflation of the Washington consensus. That deflation ensures that "the second half of the 1990s will be a far more problematic period for global capitalism than the first."<sup>23</sup>

What generally characterizes the emerging markets is the progress that was made and, in some emerging markets, the growth is far greater than in developed countries.

Countries would have some criteria to be a part of the emerging markets. For example:

- Existence of a middle class who will participate in change.
- Infrastructure satisfying the international needs.
- Developed Telecommunications.
- Political stability.
- Existence of a capital market.

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<sup>23</sup> Foreign Affairs, July/August 1995, "Dutch Tulip and Emerging Markets."

- Importance of the role played by the market as a whole.
- Prospects for local and regional potential demand.

The Moroccan case gives an idea how a country should make many changes that call for a promising future. Privatization was the consolidation of decentralization after the success of the SAP. That privatization was the starting point that completely changed the features of the Moroccan economy. Privatization is still in progress, with about 112 companies, which will increase the number of companies listed in the capital market. It will take some time to get the job done. However, most of the privatized companies were oversubscribed and, as a result, investment and capital inflow continue to increase. In fact, the consolidation of the market depends on the players like the private companies and their capacity to contribute to growth, degree of skills in the labor market, and the management style.

## **B. THE ROLE OF THE CORPORATION**

### **1. Role of Corporations**

It is very important to mention that the existence of big companies which empower other businesses is essential. The role of these holdings is to create around them many medium and small businesses. In fact, it is not with small businesses that a country can face the international competition, fast innovation in technology, and continuous improved management style. Thus, the average size and number of companies are essential to a sustained growth.

An analysis of the number and size of corporations in some countries show how they rank and that is obviously how they contribute to growth. For example:

Country	Number of Corporations	Size of Corporations (\$ millions)
USA	7,770	654
India	7,000	29
Japan	2,205	1,687
South Africa	640	353
Mexico	206	632
Morocco	61	72
Tunisia	21	122
Egypt	700	6
Jordan	95	48

Table 5.1. Number and Size of Corporations for Selected Countries <sup>24</sup>

A look at these figures indicate that the number and size of companies is very important in doing business. Surprisingly, in all the countries the number of companies is high and the size is relatively small with the exception of Japan where there is a balance between

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<sup>24</sup> International Finance Corporation, Emerging Stock Markets Factbook 1995, pages 20 and 23.

the number and size. The high performance of Japanese companies seems to be related to the fact that the size of each company is so big that it includes many other companies coordinating their activities and strategies and complementing each other.

## **2. Role of ONA**

In Morocco, four holdings account for almost 180 manufacturing, distribution, banking, insurance and mining units. However, the Groupe Omnium Nord Africain (ONA) is a diversified holding that embraces many sectors of the economy. It is considered as the most important player in the economy, because

in addition to being the largest company in Morocco, ONA is also the largest company in North Africa and, with the exception of the large mining and industrial conglomerate of South Africa, in the entire continent. Its holdings currently include 89 companies that reach into virtually every segment of Moroccan economic life plus an international affiliate and several European subsidiaries based in France.<sup>25</sup>

The vision of ONA is European business-oriented, and aims to control the potential African market, especially in countries that are emerging markets with high economic dispositions. In this context, ONA controls 88 percent of Optorg, which is known as the largest group of companies making business in Africa. Thus, ONA is highly qualified for becoming the "Emerging Markets' Market Company."

With the 1993 turnover of \$2.4 billion and valued-added of \$500 million (nearly two percent of the country's GDP), ONA is an important factor in the consolidation of the Moroccan market. In fact, ONA became a symbol for companies doing business with regard

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<sup>25</sup> Middle East Executive Reports. "Marketing to ONA," page 17, (August 1994).

to management style, efficiency, and growth. As a result, ONA became one of the cornerstones in the Moroccan economy, because "ONA is professionally run, provides important links abroad, sets a standard for other Moroccan companies, and with a recent major public share offering, is playing a role in the development of Morocco's stock market."<sup>26</sup>

### **C. THE CAPITAL MARKET**

#### **1. Evolution of Casablanca Stock Exchange**

The Moroccan stock exchange, the "Casablanca Stock Exchange," was created in 1929 by a consortium of banks to trade stocks, bonds and gold. It is considered as one of the oldest stock markets in the Arab world. Unfortunately, its establishment coincided with the crash, so it played a peripheral role in the economy.

In 1967, there was a reform and it became a government entity. The stock exchange began playing a relatively important role; however, in 1975 it was undermined by the establishment of a new tax on dividends that dampened the surge of attracted investors. Since then there have been a limited trade in the stock exchange; but with privatization in 1992 there was an upsurge its role. Privatization of 112 companies was the starting point for the dynamism of the Casablanca exchange.

The pace of privatization has drawn controversial comments. In practice, the stock market could not adapt itself to its new role and, in fact, it was not prepared for the task.

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<sup>26</sup> Middle East Executive Report, "Marketing to ONA," August 1994.

Market managers were not used to working with banks, auditors, and public-relations. Nevertheless, after the initial period, the reforms were at hand for a steady improvement.

## **2. Reforms and Its New Role**

Morocco combined the French experience in privatization with the creation of a hard core that would provide capital and know-how. Based on the Chilean experience, small and public shareholders were broadened. Olivier Fremond, an advisor to the privatization ministry expressed that if "the Moroccan government has a goal similar to that of the UK or Chile, it wants to creates a nation of shareholders so it must ensure maximum public participation."<sup>27</sup> Thus, these key strategies were the framework for the reform of the stock market.

As a result, the government made many reforms to institutionalize its activity, and to avoid the institutionalization of certain mispractice. The legislation for stock exchange reform addresses most of the problems. As the stock exchange became a private entity, the rules were defined for the listed companies and brokers. Thus, many reforms were introduced:

- The stock market lacked an independent regulatory body, and so the "Technical Committee" actually became controlled by the exchange itself.
- Legislation created an independent authority: "the Conseil Deontologiques des Valeurs Mobilières (CDVM)." Its role is
  - To approve applications for authorization to issue and trade shares
  - To supervise the financial market.
  - To control and standardize audit information issued by traded corporations.

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<sup>27</sup> Euromoney supplement, May 1994, "State Sales Underpin Reform Programme."



- To issue sanctions to violators.
- To establish prudential arrangements for registered brokers.

Certainly, the security commission (CDVM) had a great impact since it gives credibility to the stock market. Consequently, the local and foreign investors became more confident in their decision making.

Previously, the Moroccan companies had been under no obligation to issue financial statements or public annual reports, until a modern legal and accounting system began to take shape. As a result, the new legislation required companies to provide audited accounts. Thus, audits and evaluations are now carried out by local and international accounting firms, including Arthur Anderson, Coopers & Lybrand and Price Waterhouse.

In addition, with regard to the new law, the brokerage will be taken out of the banks. This task will be carried out by firms whose activity is the execution of transactions, placement of shares, management of shares, and counseling clients.

Moreover, there was the foundation of a new market index: the "Casablanca Finance Group" based on 25 of the most liquid shares on the Casablanca Bourse des Valeurs. The CFG 25 has a 25.6 percent increase over 1993 and is well followed by the press.

Furthermore, several foreign mutual funds operate in Morocco; they are "responsible for almost 60% of all daily trades (up from under 5% in the mid-1980s).<sup>28</sup> There was the establishment of a \$200 million "Morocco Fund," that received a commitment of \$60 million

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<sup>28</sup> Euromoney, September 1994, "More of that Fabled Arab Hospitality," page 375.

in initial investment capital from many investors. Most of these come from Arab Bank. The Fund will be represented by Salomon Brothers in the Americas and Asia, by Paribas in Europe, and by Samba and the Kuwait Foreign Trade, Contracting and Investment Corporation in the Middle East. The fund will not invest in ONA; however, it will extend its portfolio to South Africa.

### 3. Regional Comparison

As a result of these reforms there was tremendous performance. Table 5.2 is a capitalization comparison between Morocco, Tunisia, Egypt, and Jordan. It gives some insight into the performance of those countries as potential emergent markets in the region.

Country	World Market Capitalization (\$ millions)						
	1988	1989	1990	1991	1992	1993	1994
Morocco	446	621	966	1,528	1,909	2,651	4,376
Tunisia	608	638	533	711	814	956	2,561
Egypt	1,760	1,713	1,835	2,527	3,259	3,814	4,263
Jordan	2,233	2,162	2,001	2,512	3,365	4,891	4,594

Table 5.2. World Market Capitalization 1988-1994

Figure 5.1 shows how the market capitalization was low in 1988 and how privatization resulted in an extraordinary and steady improvement over the next six years.

Tunisia's capitalization also increased but since their capital market is dominated by banks, and the privatization did not take place, the market still faded.

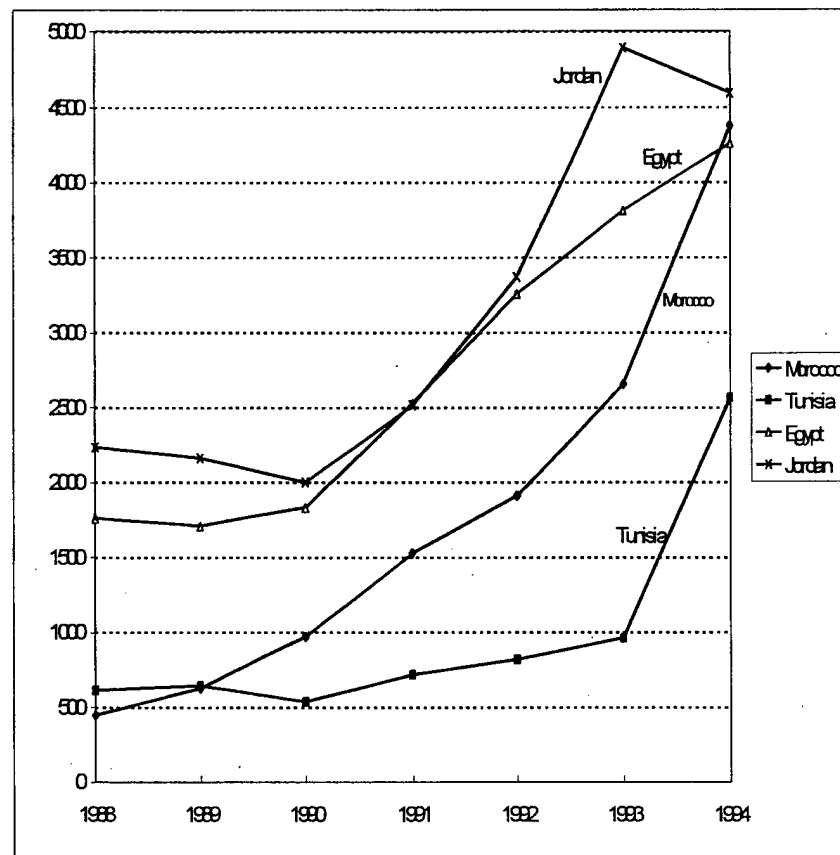


Figure 5.1. World market capitalization 1988-1994

Also, the world value traded for Morocco showed a tremendous rise, as shown in Table 5.3, and Figure 5.2.

Country	World Value Traded (\$ millions)						
	1988	1989	1990	1991	1992	1993	1994
Morocco	33	16	62	49	70	498	788
Tunisia	13	32	19	30	33	46	296
Egypt	115	81	126	139	308	169	358
Jordan	337	652	407	432	1,317	1,377	626

Table 5.3. World Value Traded International Finance Corporation<sup>29</sup>

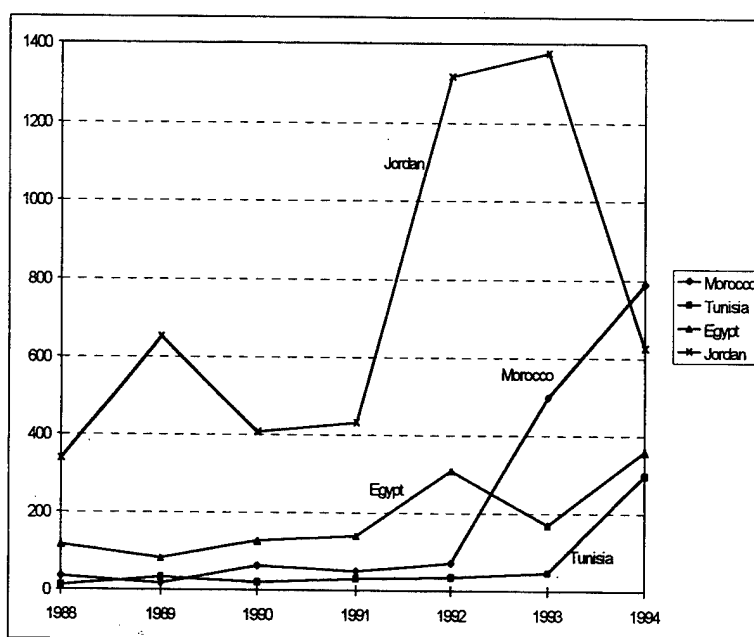


Figure 5.2. World Value Traded<sup>30</sup>

<sup>29</sup> International Finance Corporation, Emerging Stock Markets Factbook 1995, p. 18.

<sup>30</sup> International Finance Corporation, Emerging Stock Markets Factbook 1995, p. 18.

As seen in Figure 5.2, Tunisia's World Value Traded indicators increased while Egypt's and Jordan's indicators fluctuated. However, Morocco experienced an exceptional steady increase. This result is correlated with the stock market turnover ratio:

Country	Turnover Ratio
Morocco	22.1%
Tunisia	17.0%
Egypt	8.9%
Jordan	13.0%

Table 5.4. Stock Market Turnover Ratio (%)1994<sup>31</sup>

A promising market in the region is Lebanon. Peace and the return to normal life might have a great impact on the configuration of the stock markets in North Africa and Middle East. But so far, the Moroccan and Jordanian stock markets look like the most attractive with regard to capitalization and world value traded.

With privatization and reform of the stock market, there were many reasons for attracting investment:

- Proximity to the European market.

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<sup>31</sup> International Finance Corporation, Emerging Stock Markets Factbook 1995, page 13.

- Stock market reforms.
- Privatization efforts.
- Tunnel project between Morocco and Spain.
- Geostrategic position.
- Planned Algerian-European natural pipeline that will cross Morocco.

All these reasons would likely lead to sustained growth and good prospects for the Moroccan economy.

#### **D. RECOMMENDATIONS**

The Moroccan economy is based, to some extent, on agriculture. Modernization of agriculture and improvements in the agro-industry can contribute to the emergence of modern agriculture. However, the years of drought had an incredible impact on the GDP.

Also, there should be more diversification, especially, in new and modern fields and services. This diversification would certainly alleviate the burden and consequences of drought. It would be interesting to give more importance to the regions as Centers for economic strategies and coordination. For example, the north can specialize in high technology and services because it is next to Europe. In addition, diversification of international markets is very important. The partnership with Europe is interesting, but it would be better to look for markets in Latin America (e.g., Mexico, Argentina and Chile); in Asia (e.g., Japan, Taiwan, Malaysia); and to give more importance to African markets (e.g., Senegal, Central Africa, Gabon, and South Africa) and Middle Eastern markets (e.g., Jordan, Egypt, etc.).

Also, it would be important to introduce the new management style. The family enterprises would be in their interest to spread their staff out and open their companies to the stock market.





## VI. CONCLUSION

With the collapse of the communist system, the International Financial System became eager to assist countries with financial problems. In fact, the end of the Cold War provided the opportunity for these developed nations to adopt the liberal system, especially in former communist countries, and also to consolidate the role of the market in the economy.

Nevertheless, even as a liberal economy, the market had a role. This role was a fragile one, since the private sector did not have financial know-how, nor the technology to follow this unprecedented international change, thus shaping the "Moroccan vision" for the 21st century. Thus, privatization was the solution to increase efficiency, improve management, attract investment and integrate the global economy with strength and opportunities for investors.

With the "new era," Morocco benefited from the liberal economy and its geographic location. The choice of liberal market was judicious, rational, and proceeded from the convincing idea that the role of the "invisible hand," combined with efficient management, is more effective than the strict economic planning. In fact, the modern era relies on communication and technology; every player in the economy integrates and synthesizes all data, moves quickly and changes his strategy, exploits and accommodates this torrent of information.

Geographically, there is traditional relationship between Morocco and Europe; however, after the collapse of the communist system, Europe tended to prefer East Europe to North Africa. HM King Hassan II in one of his interviews declared:

*Il y a deux facons pour l' Europe de se désenclaver; soit par l' est à travers la Turquie, et j'appellerai cela, disons, le désenclavement "peu prospère", puisqu'il impose de passer par les pays de l' Est qui ne connaissent pas encore de stabilité. Soit par l' ouest et c' est la voie la plus saine, la plus sûre (...). Pourquoi? Car du nord au sud, du Danemark à l' Espagne, tout le monde là est dans le marché commun. (...). C' est pour cela que je dis aux Européens: "Vous aurez besoin un jour d' une base arrière. Venez défricher une terre encore vierge et prometteuse, et nous partageons les récoltes (...)" . Le fait de nous lier aux pays du Maghreb doit être positif pour l' Europe. Il y a entre le Maroc et les pays maghrebins des liens évidents...*<sup>32</sup>

This vision statement reflects that Morocco can be and will be a retreat point for European firms. In this context, there was an increase of joint venture companies operating in Morocco and exporting their products. There is a comparative advantage in producing in Morocco, because of its proximity to Europe, the labor costs, the existence of skills, and cost-benefits. In addition, these firms can easily penetrate the North African and Middle East markets, including some emergent markets in the North African area.

Certainly, there will be an increase of regional economies. This should take into account the fact that every country has its own strategy in dealing with the international system and trying to defend its national interest. As an example, the EU and NAFTA where globally it looks like there is union when in fact every one does his best to compete within and

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<sup>32</sup> Mohamed Ben El Hassan Alaoui. "La Coopération Entre L' Union Européenne et les Pays du Maghreb," page 13.

out of the region. Thus, if globally there is more conservatism, individually there is more focus on national interest. Therefore, sooner or later Europe will be tempted to set business in North Africa, especially in Morocco.

However, the future is promising, but Morocco must prepare itself. This transition is crucial and Morocco must have capabilities to absorb a part of the benefit and regenerate the economy. Otherwise, companies will do business only as long as they have interest; they might change and go somewhere else where they can get a higher return. In fact, the future is no longer classical war but an economic one and only the best will survive.

It is very important for developed countries to see the world with "new lenses." In this transitional period it is the moment to shape the international economic order and look toward countries with potential but without the means to get through their problems, consequently becoming an international security risk. Thus, it is in this international framework that Morocco can be the best place to translate the economic aspiration of the African countries. It can play a role as a platform for developing these countries and have them contribute to the development of emergent markets in Africa and benefiting from the markets in the Middle East. The result would be the sustained reproduction of the liberal system and regeneration of continuous growth. Risk still exists because if the international economy does not know where its long-term interest resides, there could be an emergence of new ideology. Furthermore, Asian and American companies that want to diversify their markets will certainly realize the best way to do business in Europe is to establish their business in North Africa, and this time might not be so far.

Obviously, investors who want to compete should have vision and foresight, and also an understanding of the future and its rapid change. Actually, opportunities exist and prospects are promising, thus economic players with long-term interests will certainly have a high return.

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